

KEEGAN, WERLIN & PABIAN, LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

October 18, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

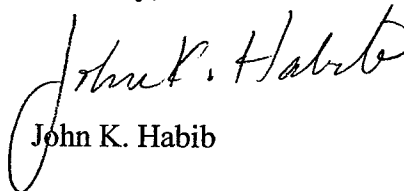
Re: Southern Union Company, D.T.E. 04-83

Dear Ms. Cottrell:

Enclosed please find the responses of Southern Union Company ("Company") to each of the record requests (DTE-1 through 5) asked in the above-referenced proceeding.

Thank you for your attention to this matter.

Sincerely,



John K. Habib

Enclosures

cc: Elizabeth Cellucci, Hearing Officer
John Cope-Flanagan, Hearing Officer
George Yiankos, Gas Division
Kevin Brannelly, Director, Rates and Revenues
Paul E. Osborne, Assistant Director of Rates and Revenues
Joseph Passaggio, Rates and Revenues
Glenn Shippee, Rates and Revenues
Mauricio Diaz
Richard Marshall

Southern Union Company
Department of Telecommunications and Energy
D.T.E. 04-83
Record Request **DTE-1**
October 18, 2004
Person Responsible: Richard N. Marshall

Record Request DTE-1 (Tr. 1, at 14-16)

Please recalculate the information provided in response to Information Request DTE-1-2 based on the following assumptions concerning the proposed financing: (1) \$100 million issued in debt and the balance in equity; (2) \$200 million issued in debt and the balance in equity; and (3) a 50/50 split between debt and equity.

Response

Please refer to the attached spreadsheets identified as Case 1, Case 2 and Case 3, reflecting the financing assumptions requested by the Department. As would be expected, each case reflects a higher degree of leverage and a deteriorating EBITDA interest coverage ratio as compared to the information provided in response to DTE-1-2.

Also, please note that the capitalization ratios shown for each case are calculated based on the use of equity accounting for the transaction, consistent with the treatment shown in the response to Information Request DTE-1-2. This means that the debt and equity Southern Union would issue in connection with the transaction is incorporated in the ratios, but the debt of the joint venture that would be attributed to Southern Union by the rating agencies in their credit-metric examination is not (see Tr. at 13-14). To show the ratios that the ratings agencies will consider in examining Southern Union's credit metrics, the Company has attached a second schedule showing the capitalization ratios for each scenario using the rating agency methodology. These scenarios include: (1) all of the debt of CrossCountry; and (2) impute 50 percent of the debt of Citrus Corp., which is proportionate to CrossCountry's economic interest in Citrus Corp. The investment of GE is included as a minority interest.

Southern Union Company and Subsidiaries
Including CrossCountry Energy Acquisition
CASE 1: \$100 Million Debt Issuance
Projected for the Years Ending December 31,

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 109.3	\$ 153.7	\$ 189.3	\$ 193.5	\$ 197.3
(B) Per share income*	\$ 1.11	\$ 1.27	\$ 1.53	\$ 1.50	\$ 1.52
(C) Book value*	\$ 12.61	\$ 13.90	\$ 16.20	\$ 17.02	\$ 19.36
(D) Retained earnings (\$000)	\$ 91.6	\$ 145.4	\$ 232.8	\$ 319.8	\$ 410.5
(E) Return on equity	10.05%	9.56%	10.25%	9.19%	8.37%
(F) Return on average assets	2.03%	2.81%	3.39%	3.43%	3.44%
(G) Asset Size (\$000)	\$ 5,376.7	\$ 5,557.2	\$ 5,605.8	\$ 5,661.8	\$ 5,809.4
Supplemental Disclosure:					
EBITDA Interest Coverage:	3.2x	3.5x	4.1x	4.3x	4.6x
Capitalization Ratios:					
Debt	53.48%	50.98%	46.27%	41.56%	36.64%
MEDS	5.28%	5.15%	2.30%	2.30%	0.00%
Preferred	5.39%	5.26%	5.29%	5.30%	5.32%
Common Equity	35.86%	38.61%	46.15%	50.83%	58.04%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Southern Union Company and Subsidiaries
Impact of CrossCountry Energy Acquisition
CASE 1: \$100 Million Debt Issuance
Projected for the Years Ending December 31.

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 9.9	\$ 41.0	\$ 44.5	\$ 42.5	\$ 42.5
(B) Per share income*	\$ 0.10	\$ 0.15	\$ 0.14	\$ 0.13	\$ 0.12
(C) Book value*	\$ 1.25	\$ 1.40	\$ 2.15	\$ 1.56	\$ 2.46
(D) Retained earnings (\$000)	\$ 9.9	\$ 30.6	\$ 59.2	\$ 81.2	\$ 103.1
(E) Return on equity	0.57%	0.25%	-0.04%	-0.12%	-0.32%
(F) Return on average assets	0.19%	0.50%	0.46%	0.38%	0.32%
(G) Asset Size (\$000)	\$ 576.8	\$ 624.1	\$ 662.6	\$ 705.3	\$ 848.0
Supplemental Disclosure:					
EBITDA Interest Coverage:	-0.3x	-0.3x	-0.4x	-0.5x	-0.4x
Capitalization Ratios:					
Debt	-5.65%	-5.66%	-5.60%	-5.31%	-4.86%
MEDS	1.89%	1.81%	2.30%	2.30%	0.00%
Preferred	-0.84%	-0.88%	-0.95%	-1.03%	-1.11%
Common Equity	4.61%	4.72%	4.25%	4.03%	5.98%
Total	0.00%	0.00%	0.00%	0.00%	0.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Southern Union Company and Subsidiaries
Including CrossCountry Energy Acquisition
CASE 2: \$200 Million Debt Issuance
Projected for the Years Ending December 31,

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 105.6	\$ 150.0	\$ 185.6	\$ 189.8	\$ 193.7
(B) Per share income*	\$ 1.07	\$ 1.30	\$ 1.58	\$ 1.54	\$ 1.57
(C) Book value*	\$ 12.43	\$ 13.76	\$ 16.16	\$ 16.99	\$ 19.41
(D) Retained earnings (\$000)	\$ 87.9	\$ 143.0	\$ 231.7	\$ 320.0	\$ 412.1
(E) Return on equity	9.92%	9.93%	10.63%	9.49%	8.62%
(F) Return on average assets	1.96%	2.74%	3.33%	3.37%	3.38%
(G) Asset Size (\$000)	\$ 5,380.2	\$ 5,557.2	\$ 5,601.9	\$ 5,654.3	\$ 5,798.2
Supplemental Disclosure:					
EBITDA Interest Coverage:	3.1x	3.3x	3.9x	4.1x	4.4x
Capitalization Ratios:					
Debt	55.78%	53.27%	48.61%	43.94%	39.06%
MEDS	5.27%	5.15%	2.30%	2.31%	0.00%
Preferred	5.39%	5.26%	5.29%	5.31%	5.34%
Common Equity	33.57%	36.32%	43.80%	48.44%	55.61%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Southern Union Company and Subsidiaries
Impact of CrossCountry Energy Acquisition
CASE 2: \$200 Million Debt Issuance
Projected for the Years Ending December 31,

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 6.2	\$ 37.3	\$ 40.8	\$ 38.8	\$ 38.9
(B) Per share income*	\$ 0.07	\$ 0.19	\$ 0.18	\$ 0.17	\$ 0.17
(C) Book value*	\$ 1.08	\$ 1.26	\$ 2.10	\$ 1.53	\$ 2.51
(D) Retained earnings (\$000)	\$ 6.2	\$ 28.2	\$ 58.1	\$ 81.4	\$ 104.7
(E) Return on equity	0.44%	0.63%	0.35%	0.18%	-0.07%
(F) Return on average assets	0.12%	0.43%	0.39%	0.32%	0.26%
(G) Asset Size (\$000)	\$ 580.3	\$ 624.1	\$ 658.7	\$ 697.8	\$ 836.8
Supplemental Disclosure:					
EBITDA Interest Coverage:	-0.4x	-0.5x	-0.6x	-0.7x	-0.6x
Capitalization Ratios:					
Debt	-3.35%	-3.37%	-3.25%	-2.93%	-2.45%
MEDS	1.88%	1.81%	2.30%	2.31%	0.00%
Preferred	-0.85%	-0.88%	-0.95%	-1.02%	-1.10%
Common Equity	2.32%	2.43%	1.90%	1.64%	3.54%
Total	0.00%	0.00%	0.00%	0.00%	0.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Southern Union Company and Subsidiaries
Including CrossCountry Energy Acquisition
CASE 3: 50/50 Debt and Equity Issuance
Projected for the Years Ending December 31.

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 102.1	\$ 146.5	\$ 182.1	\$ 186.3	\$ 190.1
(B) Per share income*	\$ 1.03	\$ 1.34	\$ 1.63	\$ 1.59	\$ 1.61
(C) Book value*	\$ 12.26	\$ 13.63	\$ 16.12	\$ 16.94	\$ 19.45
(D) Retained earnings (\$000)	\$ 84.4	\$ 140.8	\$ 230.8	\$ 320.2	\$ 413.4
(E) Return on equity	10.01%	10.34%	11.05%	9.80%	8.87%
(F) Return on average assets	1.90%	2.68%	3.26%	3.31%	3.32%
(G) Asset Size (\$000)	\$ 5,383.6	\$ 5,557.2	\$ 5,598.2	\$ 5,647.1	\$ 5,787.5
Supplemental Disclosure:					
EBITDA Interest Coverage:	3.0x	3.2x	3.7x	4.0x	4.2x
Capitalization Ratios:					
Debt	57.96%	55.45%	50.84%	46.21%	41.36%
MEDS	5.27%	5.15%	2.30%	2.31%	0.00%
Preferred	5.38%	5.26%	5.30%	5.32%	5.35%
Common Equity	31.39%	34.14%	41.56%	46.16%	53.29%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Southern Union Company and Subsidiaries
Impact of CrossCountry Energy Acquisition
CASE 3: 50/50 Debt and Equity Issuance
Projected for the Years Ending December 31.

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 2.7	\$ 33.8	\$ 37.3	\$ 35.3	\$ 35.3
(B) Per share income*	\$ 0.03	\$ 0.23	\$ 0.23	\$ 0.22	\$ 0.21
(C) Book value*	\$ 0.90	\$ 1.13	\$ 2.06	\$ 1.49	\$ 2.56
(D) Retained earnings (\$000)	\$ 2.7	\$ 26.0	\$ 57.2	\$ 81.6	\$ 106.0
(E) Return on equity	0.54%	1.04%	0.76%	0.50%	0.18%
(F) Return on average assets	0.05%	0.36%	0.33%	0.26%	0.20%
(G) Asset Size (\$000)	\$ 583.7	\$ 624.1	\$ 655.0	\$ 690.6	\$ 826.1
Supplemental Disclosure: EBITDA Interest Coverage:	-0.5x	-0.6x	-0.8x	-0.8x	-0.8x
Capitalization Ratios:					
Debt	-1.17%	-1.19%	-1.03%	-0.66%	-0.14%
MEDS	1.88%	1.81%	2.30%	2.31%	0.00%
Preferred	-0.85%	-0.88%	-0.94%	-1.01%	-1.09%
Common Equity	0.15%	0.25%	-0.34%	-0.65%	1.22%
Total	0.00%	0.00%	0.00%	0.00%	0.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Rating Agency Calculation of Capitalization Ratios
Southern Union Company and Subsidiaries
Including CrossCountry Energy Acquisition
Projected for the Years Ending December 31,

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
Base Case - Assuming 100% equity investment					
<u>Capitalization Ratios*:</u>					
Debt	59.55%	57.29%	53.82%	50.23%	46.58%
MEDS	3.41%	3.34%	1.48%	1.48%	0.00%
Preferred	3.48%	3.41%	3.40%	3.39%	3.39%
Minority interest	8.94%	9.45%	10.09%	10.78%	11.45%
Common Equity	24.62%	26.51%	31.20%	34.12%	38.58%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Case 1 - Assuming \$100 million of debt

<u>Capitalization Ratios*:</u>					
Debt	61.03%	58.78%	55.33%	51.77%	48.13%
MEDS	3.41%	3.34%	1.48%	1.48%	0.00%
Preferred	3.48%	3.41%	3.40%	3.40%	3.39%
Minority interest	8.94%	9.45%	10.10%	10.79%	11.47%
Common Equity	23.15%	25.03%	29.68%	32.57%	37.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Case 2 - Assuming \$200 million of debt

<u>Capitalization Ratios*:</u>					
Debt	62.51%	60.26%	56.85%	53.30%	49.69%
MEDS	3.40%	3.34%	1.48%	1.48%	0.00%
Preferred	3.48%	3.41%	3.40%	3.40%	3.40%
Minority interest	8.93%	9.45%	10.11%	10.80%	11.49%
Common Equity	21.67%	23.54%	28.16%	31.02%	35.42%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Case 3 - Assuming 50% debt and 50% equity

<u>Capitalization Ratios*:</u>					
Debt	63.92%	61.67%	58.28%	54.77%	51.17%
MEDS	3.40%	3.34%	1.48%	1.48%	0.00%
Preferred	3.48%	3.41%	3.41%	3.40%	3.40%
Minority interest	8.93%	9.45%	10.11%	10.81%	11.51%
Common Equity	20.28%	22.13%	26.72%	29.54%	33.91%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

* These capitalization ratios were developed by consolidating CrossCountry Energy into Southern Union Company and imputing 50% of the debt of Citrus Corp, based upon CrossCountry's economic interest in Citrus Corp. The investment of GE is reflected as minority interest.

Record Request DTE-2 (Tr. 1, at 24)

Please reconcile the amount of 3,897,702 shares shown in response to Information Request DTE-1-15 with the 3,656,000 shares identified on page F-6 of Exhibit SU-6.

Response

The 3,897,702 shares that were issued in connection with the annual five percent stock dividend for FY2004 represents a dividend on all shares outstanding on the record date of August 20, 2004. The figure of 3,656,000 shares shown on Exhibit SU-6 at page F-6 [supp.] reflects a five percent dividend on shares outstanding as of the end of the fiscal year (June 30, 2004), as required by GAAP. The shares actually issued in connection with the five percent stock dividend in excess of those reported on page F-6 are comprised of: (1) 240,000 shares of stock issued as a dividend on the 4,800,000 shares of common stock that were sold by the Company after June 30, 2004 (July 2004); and (2) 2,134 shares of stock issued as a dividend on shares connected to stock options exercised from July 1, 2004 through the record date, August 20, 2004. Thus, the reconciliation is as follows:

Stock dividend on shares outstanding at June 30, 2004	3,655,568
Stock dividend on 4,800,000 shares sold in July 2004	240,000
Stock dividend on shares issued in connection with stock options exercised from July 1, 2004 through August 20, 2004	<u>2,134</u>
Total 5% stock dividend included in net plant test	3,897,702

Record Request DTE-3 (Tr. 1, at 25-26)

Please reconcile the \$21 million of outstanding debt under the Company's revolving-credit facility of June 30, 2004, as shown in Exhibit SU-6, page 26, with the \$86,084,000 outstanding, as shown in Exhibit SU-6, page 9.

Response

Exhibit SU-6 [supp.], page 26 states that "[a] balance of \$21,000,000 and \$251,500,000 was outstanding under the Company's credit facilities at June 30, 2004 and 2003, respectively." The borrowings of \$21 million referenced in Exhibit SU-6 [supp.] were borrowings under other shorter-term credit facilities that the Company has with various banks and not amounts associated with the \$400 million revolving credit facility approved by the Department in D.T.E. 04-36. As of June 30, 2004, there were no amounts outstanding under the revolving facility. However, to compute the net plant at the time of filing, it was necessary for the Company to incorporate a number of significant changes in capitalization that occurred subsequent to June 30, 2004, including the public offering of common stock in July 2004, the distribution of a five percent stock dividend to shareholders of record as of August 20, 2004 and the repayment of approximately \$86 million of long-term debt using funds from the revolving credit facility. As noted in Exhibit SU-6 [supp.], at 26, as of August 16, 2004, there was a balance of \$79,500,000 outstanding under the revolver, which combined with other draws and payments on the line, resulted from the repayment of long-term debt by the Company subsequent to June 30, 2004.

The use of funds from the revolver to pay the current portion of long-term debt highlights the difficulties and inconsistencies that will be encountered over time with the (artificial) inclusion of the full \$400 million credit line in the net plant calculation. For example, in this filing, the inclusion of the \$400 million has effectively understated the Company's net utility plant in excess of capitalization by approximately \$ 313,916,000 according to the computations presented in Exh. SU-4 (Supp) and SU-5 (Supp). As the Company testified in D.T.E. 04-36, funds from the revolving credit facility will be used to meet the Company's temporary working capital needs rather than constituting long-term financing of the permanent asset base (Exh. SU-1, at 4, 5, 6; Tr. 1, at 7). This means that the Company will be drawing on the revolver from time to time to finance construction work in progress, to purchase gas commodity for resale to customers and to repay other liabilities and indebtedness when it is necessary to supplement cash flows from operations (see D.T.E. 04-36, Tr. 1, at 7). However, to maintain the availability of funding under the revolver for these types of activities, the Company will have to repay outstanding amounts on a continual basis. As stated in Exhibit SU-6 [supp.], at 26, "the Company's *primary source of liquidity* included borrowings available under the Company's credit facilities." These "credit facilities" include the "long-term" credit

facility (i.e., the \$400 million revolver) that replaced the Company's \$150,000,000 and \$225,000,000 credit facilities that expired on April 1, 2004 and May 29, 2004, respectively (Exhibit SU-6 [supp.], at 26). Funds available to the Company under these prior credit facilities were (appropriately) never included in the net plant calculation because, consistent with Department precedent, these funds were available to the Company only on a short-term basis and did not constitute part of the Company's permanent capital structure. Aside from the fact that the revolving credit facility is a multi-year (i.e., long-term) agreement between the Company and its banks (which therefore required Department approval), the case is no different with the \$400 million revolver. The funds available under the revolving credit line are not being used for any purpose other than to meet working capital needs and to maintain liquidity just as the previous short-term facilities were used. In fact, for financial reporting purposes, amounts outstanding under the revolver (and any other short-term credit facilities) are listed under "Notes Payable" as part of "Current Liabilities" and not as "Long-Term Debt and Capital Lease Obligations" under "Common Stockholders' Equity" (see, Exhibit SU-6 [supp.], at F-4). This fact alone should mean that the amounts available under the revolver would be excluded from the net plant calculation. Also, it is significant that, if the Company were to draw down the entire \$400 million, it would be left with virtually no liquidity, and would have to move immediately to pay down a considerable portion of the line to maintain liquidity for operating purposes or convert some or all to permanent capital. Therefore, there is no basis for including the revolving credit arrangement in its entirety in the net plant calculation, if it should be included at all.

In this case, the Company included the \$400 million in available credit in the net plant calculation only because it was recently approved by the Department and the Company hoped to facilitate (and expedite) the Department's review. However, any amounts due under this line are not part of the permanent capital structure of the Company, nor are these amounts associated with the permanent utility asset base. Moreover, even if the amounts borrowed under the revolver did support the permanent asset base, the amount included in the net plant test should not exceed the amount outstanding at the point in time that the net plant test is performed. Because balances outstanding on the line will fluctuate considerably on a month-to-month basis as the Company borrows and repays amounts used to fund construction work in progress, to purchase gas commodity for resale to customers and to repay other debts and liabilities, it will be difficult to calculate the net plant test on a consistent and conceptually sound basis, unless these amounts are either excluded from the calculation entirely, or the calculation is based on the amounts outstanding at the close of the financial period serving as the basis for the net plant calculation.

To that end, attached is a revised net plant calculation as of June 30, 2004, which is computed consistent with Department precedent and to incorporate changes discussed at

Southern Union Company
Department of Telecommunications and Energy
D.T.E. 04-83
Record Request **DTE-3**
October 18, 2004
Person Responsible: Richard N. Marshall

the hearing (see Att. RR-DTE-3). Specifically, the Company has made the following changes (as compared to Exhibits SU-4 [supp.] and SU-5 [supp.], previously submitted to the Department): (1) consistent with the Department's treatment of retained earnings, Accumulated Other Comprehensive Income is zeroed out and excluded from the calculation; (2) repayments made on the current portion of long-term debt outstanding as of June 30, 2004 (\$86,084,000) are excluded from the calculation because the payments were made subsequent to June 30, 2004; and (3) any amount associated with the \$400 million revolver is excluded from the calculation because there was no outstanding balance as of June 30, 2004.

Southern Union Company
Net Plant Test
(Exhibit SU-3)

ATT. RE-DTE-3

	As of 30-Jun-04	Adjustments (in 000's)	Adj Net Plant 30-Jun-04
Capitalization			
Common stockholders' equity			
Common stock, \$1 par	77,141	4,800 (F)	81,941
Premium on capital stock	975,104	(187,977) (B)	888,145
		(4,182) (A)	
		85,200 (F)	
Less: treasury stock, at cost	(12,870)		(12,870)
Less: common stock held in trust	(3,852)		(3,852)
Deferred compensation plans	-		-
Accumulated other comprehensive income	(50,224)	50,224 (G)	-
Retained earnings	48,692	(48,692) (C)	-
Total common stockholders' equity	1,031,991	(98,627)	933,364
Mandatory Convertible Securities	125,000		125,000
Long-term debt (including Preferred Stock)	2,259,615 N.1	(452,570) (B)	1,720,889
		(10,069) (A)	
		(76,087) (F)	
Long-term debt - Current Portion	99,997	(13,913) (F)	86,084
Total Long-term debt	2,359,612	(552,639)	1,806,973
Total capitalization	3,516,603	(651,266)	2,865,337
Property plant and equipment			
Plant in service	3,772,616	(16,907) (A)	3,755,709
Construction work in progress	169,264	(169,264) (D)	-
Subtotal	3,941,880	(186,171)	3,755,709
Less: accumulated depreciation	(724,367)	2,656 (A)	(731,711)
Net property, plant and equipment	3,207,513	(183,515)	3,023,998
Plus: Inventory	190,124	(7,424) (E)	182,700
Total assets to be funded	3,397,637	(190,939)	3,206,698
Excess of net utility plant and other assets over total capitalization after adjustments			341,361
Net Goodwill on Books	640,547	(640,547) (B)	

Note 1: This amount includes \$230 million of preferred securities

- (A) Elimination of unregulated property from plant and capitalization.
(B) Apportionment of Goodwill between debt and equity.
(C) Elimination of retained earnings from net plant test.
(D) Elimination of CWIP from net plant test.
(E) Elimination of unregulated inventories from net plant test.
(F) Incorporates issuance on July 30, 2004 of 4.8 million shares at \$18.75 per share and pay down of \$111.1 million balance on term loan.
(G) Elimination of accumulated other comprehensive income from net plant test

Southern Union Company
Post-Issuance Comparison of Net-Utility Plant (adjusted) to Total Capitalization (adjusted)

(Exhibit SU-4)

	<u>Post-Issuance</u> <u>(in \$000's)</u>	<u>Total</u> <u>(in 000's)</u>
<u>Property Plant and Equipment</u>		
Net-Utility Plant In Service	\$ 3,755,709	
Less: Accumulated Depreciation	(731,711)	
Subtotal	<u>3,023,998</u>	
Plus: Inventory Held By Regulated Utilities	<u>182,700</u>	
Investment in CCE Holdings, LLC	590,500	
<u>Total Property Plant and Equipment</u>	<u><u>\$ 3,797,198</u></u>	<u><u>\$ 3,797,198</u></u>
<u>Capitalization</u>		
Common stockholders' equity		
Common stock, \$1 par	\$ 113,020	(a)
Premium on capital stock	1,427,566	(a)
Less: treasury stock, at cost	(12,870)	
Less: common stock held in trust	(3,852)	
Accumulated other comprehensive income	-	
Deferred compensation plans	-	
Total Common Stockholders' Equity	<u>1,523,864</u>	
Mandatory Convertible Securities	125,000	
Long-term Debt and Capital Lease Obligation	1,720,889	
Long-term Debt - Current Portion	86,084	
Total Long-term Debt	<u>1,931,973</u>	
<u>Total Capitalization</u>	<u><u>\$ 3,455,837</u></u>	<u><u>\$ 3,455,837</u></u>
Net-Utility Plant in Excess of Total Capitalization		<u><u>\$ 341,361</u></u>

(a) Shows common stock issuance of \$590.5 million (31.08 million shares at \$19 per share).

Southern Union Company
Department of Telecommunications and Energy
D.T.E. 04-83
Record Request **DTE-4**
October 18, 2004
Person Responsible: Richard N. Marshall

Record Request DTE-4 (Tr. 1, at 65)

Please provide a copy of the current Fitch rating of the Company.

Response

Please see Att-RR-DTE-4(a) and (b) for copies of the most recent rating reports from Fitch Ratings.

**Attachment
RR-DTE-4(a)****Fitch Comments on Southern Union Acq. Of CrossCountry Energy**

Fitch Ratings-New York-September 2, 2004: Fitch Ratings continues to monitor Southern Union Co.'s (SUG) plans to acquire CrossCountry Energy, LLC from Enron Corp. under a joint venture arrangement with GE Commercial Finance Energy Financial Services. Fitch currently rates SUG as follows: senior unsecured debt 'BBB'; first mortgage bonds 'BBB+'; preferred stock 'BBB-'. The Rating Outlook is Stable.

The joint venture announced yesterday that it has entered into an agreement to acquire 100% of the equity interests in CrossCountry in a transaction valued at approximately \$2.45 billion, including the assumption of certain outstanding debt. CrossCountry is the holding company for Enron's natural gas pipeline businesses; its principal assets being Transwestern Pipeline Co. ('B+' senior unsecured, Rating Watch Positive), a 50% interest in Citrus Corp., and a general partnership interest in Northern Border Partners, L.P. ('BBB+' senior unsecured, Negative Outlook). The transaction, which has the support of Enron's Official Committee of Unsecured Creditors, remains subject to approval by the U.S. Bankruptcy Court at a hearing slated for September 9, 2004.

Fitch analysts expect to meet with SUG management in the near-term to review the joint venture's acquisition financing plans and strategies for operating and integrating the CrossCountry pipeline assets. A key factor to be taken into consideration will be the credit impact of SUG's funding strategy for its share of the transaction's cash component. Fitch acknowledges that SUG's recent sale of \$237.2 million of new common equity (including a \$147.2 million forward sale earmarked for the CrossCountry bid) reduces execution risk. In addition, SUG has demonstrated a track record of permanently financing acquisitions in a manner that preserves credit quality, the most recent being the 2003 acquisition of the Panhandle Companies.

Contact: Hugh Welton +1-212-908-0746 or Ralph Pellecchia +1-212-908-0586, New York.

617 951 -1354

Attachment
RR-DTE-4(b)

Fitch

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Fitch Comment: Southern Union Bid To Acquire CrossCountry Energy Page 1/3

Business Editors

NEW YORK--(BUSINESS WIRE)--June 24, 2004

Fitch Ratings anticipates no immediate change in Southern Union Co.'s (SUG) outstanding credit ratings or Rating Outlook based on today's announcement that SUG is pursuing the potential acquisition of CrossCountry Energy, LLC from Enron Corp. SUG's ratings are as follows:

- Senior unsecured debt 'BBB';
- First mortgage bonds 'BBB+';
- Preferred stock 'BBB-'.

The Rating Outlook is Stable.

SUG, in conjunction with its 50% joint venture partner GE Commercial Finance, has submitted a bid to acquire the stock of CrossCountry in a transaction valued at approximately \$2.3 billion, including the assumption of \$461 million of outstanding debt.

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Fitch Comment: Southern Union Bid To Acquire CrossCountry Energy Page 2/3
 CrossCountry is the holding company for Enron's natural gas pipeline businesses; its principal assets being Transwestern Pipeline Co. ('B+' senior unsecured, Rating Watch Positive), a 50% interest in Citrus Corp., and a general partnership interest in Northern Border Partners, L.P. ('BBB+' senior unsecured, Negative Outlook). If the bankruptcy court determines that the joint venture's offer should be established as the stalking horse bid, other parties will have the opportunity to bid for the CrossCountry assets in an auction process expected to be concluded by September 2004.

Fitch will continue to monitor the CrossCountry auction proceedings and will consider taking rating action if SUG ultimately emerges as the winning bidder. Factors to be taken into consideration include the joint venture's financing strategy and any leveraging impact of the purchase on SUG's credit profile, both of which could lead to downward pressure on the company's ratings. Fitch notes that the participation of GE Commercial Finance in the transaction would moderate the overall financial impact on SUG. In addition, SUG has recently demonstrated a track record of permanently financing acquisitions in a manner that preserves credit quality, the most recent being the 2003 acquisition of the Panhandle Companies.

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Fitch Comment: Southern Union Bid To Acquire CrossCountry Energy Page 3/3

CONTACT:

Fitch Ratings

Hugh Welton, 212-908-0746 or

Ralph Pellecchia, 212-908-0586, New York

or

Media Relations:

Brian Bertsch, 212-908-0549, New York

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Southern Union Company
Department of Telecommunications and Energy
D.T.E. 04-83
Record Request **DTE-5**
October 18, 2004
Person Responsible: Richard N. Marshall

Record Request DTE-5 (Tr. 1, at 70)

Please update Information Request DTE-1-2 using the assumption that a five percent stock dividend will be paid each year.

Response

The attached responses assume the issuance of a five percent stock dividend in each of the years 2005 through 2008 at a per share value of \$20.00. In accordance with GAAP, prior-year earnings per share and book value amounts are restated to adjust for stock dividends. Therefore, in order to be consistent with financial statement presentation and to reflect a meaningful comparison, the amounts for each year reflect stock dividends through 2008. Please note that, when comparing this updated information to the Company's original response to Information Request DTE-1-2, there is no change to net income, return on equity, return on average assets, asset size, EBITDA interest coverage and capitalization ratios as a result of using the assumption that a five percent stock dividend is distributed in the years 2005 through 2008. As noted at the hearing, the book value and net income per share change as a result of the distribution of stock dividends; however, there is no change to the Company's aggregate book value or net income.

Southern Union Company
Department of Telecommunications and Energy
D.T.E. 04-83
Record Request **DTE-5**
October 18, 2004
Person Responsible: Richard N. Marshall

Record Request DTE-5 (Tr. 1, at 70)

Please update Information Request DTE-1-2 using the assumption that a five percent stock dividend will be paid each year.

Response (continued)

Southern Union Company and Subsidiaries
Including CrossCountry Energy Acquisition
Projected for the Years Ending December 31,

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 113.0	\$ 157.4	\$ 193.0	\$ 197.2	\$ 201.0
(B) Per share income*	\$ 1.14	\$ 1.18	\$ 1.42	\$ 1.39	\$ 1.41
(C) Book value*	\$ 12.76	\$ 13.42	\$ 14.89	\$ 16.29	\$ 18.43
(D) Retained earnings (\$000)	\$ 95.3	\$ 147.8	\$ 233.9	\$ 319.6	\$ 409.0
(E) Return on equity	10.17%	9.20%	9.86%	8.88%	8.13%
(F) Return on average assets	2.10%	2.88%	3.45%	3.49%	3.49%
(G) Asset Size (\$000)	\$ 5,382.4	\$ 5,566.2	\$ 5,617.8	\$ 5,676.8	\$ 5,826.5
Supplemental Disclosure:					
EBITDA Interest Coverage:	3.4x	3.7x	4.5x	4.8x	5.1x
Capitalization Ratios:					
Debt	51.17%	48.60%	43.85%	39.12%	34.19%
MEDS	5.28%	5.14%	2.29%	2.30%	0.00%
Preferred	5.40%	5.25%	5.27%	5.28%	5.30%
Common Equity	38.15%	41.02%	48.59%	53.30%	60.51%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.

Record Request DTE-5 (Tr. 1, at 70)

Please update Information Request DTE-1-2 using the assumption that a five percent stock dividend will be paid each year.

Response (continued)

Southern Union Company and Subsidiaries
Impact of CrossCountry Energy Acquisition
Projected for the Years Ending December 31,

	Pro Forma <u>2004</u>	Pro Forma <u>2005</u>	Pro Forma <u>2006</u>	Pro Forma <u>2007</u>	Pro Forma <u>2008</u>
(A) Income (\$000)	\$ 13.6	\$ 44.7	\$ 48.2	\$ 46.2	\$ 46.2
(B) Per share income*	\$ 0.14	\$ 0.06	\$ 0.02	\$ 0.02	\$ 0.00
(C) Book value*	\$ 1.41	\$ 0.92	\$ 0.83	\$ 0.83	\$ 1.54
(D) Retained earnings (\$000)	\$ 13.6	\$ 33.0	\$ 60.3	\$ 81.0	\$ 101.6
(E) Return on equity	0.70%	-0.11%	-0.43%	-0.42%	-0.56%
(F) Return on average assets	0.25%	0.56%	0.52%	0.44%	0.37%
(G) Asset Size (\$000)	\$ 582.5	\$ 633.1	\$ 674.6	\$ 720.3	\$ 865.1
Supplemental Disclosure:					
EBITDA Interest Coverage:	0.1x	0.1x	0.0x	0.0x	-0.1x
Capitalization Ratios:					
Debt	-7.96%	-8.04%	-8.02%	-7.75%	-7.31%
MEDS	1.89%	1.80%	2.29%	2.30%	0.00%
Preferred	-0.84%	-0.89%	-0.96%	-1.05%	-1.13%
Common Equity	6.91%	7.13%	6.69%	6.50%	8.45%
Total	0.00%	0.00%	0.00%	0.00%	0.00%

* Adjusted to reflect stock dividends through 2008 in accordance with GAAP.